

# ■ THE U.S.- CHINA WTO ACCESSION DEAL

**A CLEAR WIN FOR U.S. HIGH TECHNOLOGY, GREATER  
OPENNESS AND U.S. INTERESTS**

by the White House's China Trade Relations Working Group

Over the past three decades, the United States has witnessed the evolution of its economy from one that focused largely on manufacturing for domestic consumption to one that increasingly relies on producing high technology products and services for global trade. In fact, in the past 30 years, as a percentage of GDP, trade has increased from 10 to 24 percent.

Information technology (IT) has made a crucial contribution to this new economy by helping to fuel record growth, higher wages and changes in the way

business is done. IT accounts for only 8 percent of total jobs, but has been responsible for nearly one-third of U.S. economic growth. Declining IT prices have lowered the overall inflation rate by nearly one percentage point, and wages in the IT industry are 77 percent higher than the private sector average.

But, even though we are enjoying the longest period of economic expansion in our nation's history, our unemployment rates are the lowest levels they have been in 30 years, and we are the global leaders in the Internet and e-commerce industries, we cannot afford to become complacent. Access to new markets, especially for our information technology exports, is imperative to maintain our advantage.

The U.S.-China Bilateral Agreement on China's Accession to the WTO will give American IT companies access to

China's growing market, which will be vital to maintaining U.S. global leadership in information technology.—without having to make any concessions in return.

## ■ CHINA'S GROWING MARKET

The statistics show that access to China's market has not only been beneficial for U.S. companies—U.S. high technology industry exports to China have increased over 500 percent between 1990 and 1998—but will become even more important in the coming decades.

■ Right now, China's information technology equipment market is estimated to be growing at 20-40 percent annually. Some analysts predict that by the end of 2000 China will become the world's second largest personal computer mar-

ket and that by the end of 2001 it will be the third largest semiconductor market.

■ China is already the world's fastest growing telecommunications market. Each year, China installs enough phone lines to replace networks the size of Pacific Bell. By the end of 1999, China boasted approximately 40 million cellular subscribers. Only the U.S. telecommunications market is expected to be larger by the end of 2000.

■ In 1999 alone, the number of Chinese Internet users quadrupled, jumping from 2 million at the beginning of the year to 9 million by December. Growth predictions put Internet users in China at over 20 million by the end of 2000. As the world's leader in Internet exports, American information technology companies are uniquely positioned to help China build an information infrastructure to support tens of millions new Internet users.

#### CHINA'S ACCESSION TO THE WTO

China's accession to the WTO will significantly benefit American IT companies. China made significant, one-way market-opening concessions across a wide range of high technology products and services. The United States made no market opening concessions. China will eliminate information technology tariffs by 2005, grant trading and distribution rights by 2003, open its Internet and telecom markets to investment and services, and provide stronger protection of intellectual property. The Agreement also eliminates distortive investment practices such as local content, forced technology transfer and export performance requirements that can displace U.S. jobs.

The following is an overview of how the U.S.-China Bilateral Agreement will benefit U.S. IT companies.

**China Will Eliminate Tariffs and Quotas on Information Technology Products by 2005:** Chinese tariffs on information technology products currently average 13 percent. Upon accession to the WTO, China will adopt the Information Technology Agreement, which eliminates import duties on these products. China will eliminate two-thirds of its tariffs by 2003 and the remaining one-third by January 1, 2005. China will also eliminate quotas immediately upon accession.

**China Will Allow Foreign Investment in Telecommunications Services for the First Time:** China now prohibits foreign investment in telecommunications. With WTO accession, it will permit 50 percent foreign equity share participation for value-added services (including, for example, electronic mail, voice mail, Internet, online information and database retrieval, and enhanced/value added facsimile services) and paging services two years after accession; 49 percent foreign equity share for mobile voice and data services (including all analogue/digital cellular and personal

communications services) five years after accession; and for domestic and international services (including, for example, voice, facsimile, intra-company email, voice and data services) six years after accession. Geographic restrictions will be eliminated for paging and value added services two years after accession, for mobile voice and data services in five years, and for domestic and international services in six years.

**China Will Adopt WTO Norms for Telecommunications Regulation:** China has agreed to implement the pro-competitive regulatory principles embodied in the WTO Basic Telecommunications Agreement. These include access to the public telecom networks of incumbent suppliers (i.e., interconnection rights) under non-discriminatory terms and at cost-oriented rates, as well as independent regulatory authority. China has also committed to technology-neutral scheduling, which means that any basic service may be provided through any means of technology (e.g., cable, wireless, satellites).



Technicians at the Beijing Computer Technique Research Institute assembling microcomputers.

Photo courtesy of the U.S.-China Business Council

## AMERICAN COMPUTER MANUFACTURERS CURRENTLY FACE HUGE BARRIERS WHEN EXPORTING TO CHINA

Tariffs averaging 13 percent can add hundreds of dollars to the price of a computer. A \$1,500 computer, for example, would be slapped with a tariff of nearly \$200. U.S. manufacturers are often forced to use a state-run middleman to import into China. Joint venture contracts often require U.S. companies to transfer technology to their Chinese partners, use a certain percentage of locally sourced parts and export a minimum quantity of their products. American companies are not allowed to distribute directly to customers, hamstringing their efforts to tailor products to specific markets and preventing them from providing direct, quality after-sales service and support.

China has pledged to sign on to the Information Technology Agreement, thereby committing to eliminate tariffs on all products covered by the ITA—two thirds of ITA products by 2003 and the remaining one-third by 2005. American companies will also be able to import most products, including ITA products, into any part of China. This will allow our businesses to export to China from here at home, rather than being forced to set up factories there to sell products through Chinese partners. U.S. companies that do operate in China will no longer be forced by government regulations to give up cutting-edge technology to their competitors, and will no longer be forced to use locally made parts or to export a certain percentage of their products. U.S. companies will also—for the first time—be able to operate their own distribution networks in China, allowing them direct access to customers for sales and service. ■

**The Agreement Will Provide Strong Protection for Intellectual Property Rights:** China has agreed to implement the Agreement on Trade Related Aspects of Intellectual Property Rights immediately upon accession and with no transition period. The TRIPs agreement is the best vehicle to combat piracy of U.S. software and create a healthy environment for the development of China's software industry. Under the TRIPs agreement, the U.S. software industry will be better able to enforce its intellectual property rights in Chinese courts and administrative tribunals.

**The Agreement Contains Strong Provisions against Unfair or Market-Distorting Chinese Trade:** The Agreement guarantees our right to the special antidumping methodology we apply to non-market economies for 15 years after China's accession to the WTO. China has also agreed to a 12-year product specific safeguard that ensures that the U.S. can take effective action in case of increased imports from China that cause market disruption in the United States. This applies to all industries, including high technology, permits us to act based on a lower showing of injury and to act specifically against imports from China. After 12 years, current U.S. safeguard provisions—Section 201—will remain available to address increasing imports.

**China Will Eliminate Practices that Cost American Jobs and Technology:** China will abolish requirements that U.S. companies transfer their technology in order for U.S. companies to export or invest in China. This will better protect U.S. competitiveness and the results of U.S. research and development. In addition to implementing the WTO's Agreement on Trade-Related Investment upon accession, China will eliminate trade and foreign exchange balancing, local content and export

performance requirements and refuse to enforce contracts containing those requirements. China will not condition import approval or investment licenses on performance requirements of any kind, including offset and technology requirements or the existence of a competing domestic producer. All this will make it significantly easier for American companies to export to China from the United States, rather than having to set up in China in order to sell products there.

The U.S.-China Bilateral Agreement will certainly lead to obvious benefits for U.S. high technology companies. Increased market access and lower tariffs will translate into more opportunities for U.S. businesses in the fast growing Chinese market. But, opening China's information technology market will also help integrate China into the global economy and fuel an information revolution in China. The WTO Agreement will make the tools of communication cheaper, better and more widely available. It will enable Chinese businesses and consumers to connect and integrate with the global economy and advance China's integration into that economy. It will increase the flow and exchange of information among Chinese and between China and the outside world. This cannot help but promote the right kind of change in China. ■